

COUNTRY China

DATE DISTR. 3 December 1948

SUBJECT 1. Sources of Labor Unrest in Shanghai
2. Communist Strength in Shanghai

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SUPPLEMENT TO
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1. Factors in the labor situation in Shanghai which make labor riots or revolt a possibility are:
 - a. The economic position of Shanghai workers is almost unbearable. Their wages have been frozen, and the salaries of textile workers, who constitute the majority of Shanghai labor, have been cut sixty per cent.
 - b. New regulations have resulted in the virtual disappearance of food from Shanghai markets. Even rationed rice is not available. Black market food prices are extremely high.
 - c. TU Yueh-sheng's activities are aimed at sabotaging the new economic regulations. TU's motive is revenge on CHIANG Ching-kuo for the arrest of TU's son and the resulting loss of face for TU.
 - d. Bonuses are payable at the end of January, on the occasion of the Chinese New Year. This is often a time of ill feeling in labor-management relations, and it is believed that the Communists may use this occasion as a signal for action.
 - e. There is further loss of confidence in the government as important cities continue to fall to the Communists.

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[REDACTED] Comment. The significance of this labor unrest is that it could lead to a purge of the present Nationalist government leaders and the establishment of a coalition government for China. Such a coalition government would possibly include LI Chi-shen, but would not include Communists.

CHIANG Kai-shek's resignation is desired by all segments of Chinese society, but the Kuomintang cliques are not able to agree on a successor for him. Furthermore, it is doubtful if CHIANG will resign, or be forced to resign, until Nanking falls.

In the event of CHIANG's resignation, LI Tsung-jen would be the most popular choice to succeed him. LI, if in a position to form a government, would probably include in it HU Shih and the Kwanpai Clique. LI Chi-shen and TSAI Ting-kai, South China dissident leaders, are neither influential nor highly regarded by LI Tsung-jen.)

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2. Communist strength among Shanghai workers is not great. Rather, such strength is centered among the student groups. It is estimated that seventy per cent of the students at Chiaotung University are Communists.
3. A large proportion of the 6,000 refugees entering Shanghai to date are probably Communists. In addition, bandit forces in the Shanghai area, numbering about 75,000, maintain contact with the Communists.

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